Issues Related to Licensure, Underwriting and Development Processing of Nursing Homes, Board and Care Homes and Assisted Living Facilities Insured under Section

Directive Number: **97-1**

U.S. Department of Housing and Urban Development

H O U S I N G

Special Attention of:
All Directors of Housing
All State and Area Coordinators
All Multifamily Housing Directors
All Production Branch Chiefs
All Field Counsel

Notice H 97-01 (HUD)

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Cross References:

Subject: Issues Related to Licensure, Underwriting and Development Processing of Nursing Homes, Board and Care Homes and Assisted Living Facilities Insured under Section 232

I. PURPOSE

The purpose of this Notice is to address issues regarding definition, licensing, underwriting, marketing and monitoring projects insured under the Section 232 program. In view of recent findings by the General Accounting Office (GAO), this Notice provides special emphasis on underwriting assisted living facilities.

II. APPLICABILITY

The instructions herein apply to mortgages insured under Section 232 of the National Housing Act, including nursing homes, board and care homes (B&Cs), and assisted living facilities (ALFs) as appropriate.

III. BACKGROUND

The Report of the GAO entitled "Greater Oversight Needed of FHA's Nursing Home Insurance Program (GAO/RCE-95-214)," issued in August 1995, made a number of important findings that are addressed in this Notice.

Among other things, the report expressed concern that the addition of the ALF market-driven product to the Section 232 program may result in potentially riskier loans that FHA may be unable to underwrite and monitor effectively. This concern extends to B&Cs, as well as to ALFS. As a result of the report, FHA began post-endorsement reviews of projects insured under Section 232 to determine prudent underwriting criteria that should be used for those products and will share those findings with our

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State and Area Office (S/AO) Housing staff. This analysis of B&Cs and ALFs will be ongoing and will be broadened to include some basic information about all B&Cs and ALFS.

To assist this post-endorsement review monitoring, S/AOs must submit to Headquarters, the processing for all ALFs and B&Cs, whether 223(f), new construction or substantial rehabilitation. The Forms HUD-92264, 92264A, 92273 and 92274 and the narrative underwriting summary and EMAS market study should be submitted to the Office of Multifamily Housing Development, New Products Division, Room 6146.

Based on the GAO report, B&C defaults were high for projects endorsed from 1987 to 1994. HUD paid claims on 10 out of 33 projects insured during that period. This claim rate of 30 percent compares to 8 percent for the nursing home program as a whole. The primary reasons cited for the defaults of B&Cs were: 1) inexperienced operators, 2) under-writing problems, (3) projects too large for the market, and 4) over-estimation of fill-up during the first year of operation.

Projects went into default because they did not fill up as quickly as planned, i.e., the pro-forma marketing projections were too aggressive. As a result, the projected income was overestimated and projects had larger operating deficits than anticipated before break-even occupancy was achieved.

In other cases, projects achieved a lower level of income than projected because they were anticipated to have double-occupancy rooms in markets where such sharing of living space by private pay residents is not typical. In still other cases, the mortgagor entity could not attract sufficient private pay residents and, therefore, had to negotiate contracts with State agencies for payments that were substantially less than the private pay rates projected in the underwriting.

This Notice addresses the above issues raised by the GAO as well as other matters related to ALF and other Section 232 processing.

IV. ASSISTED LIVING FACILITIES

A. The ALF Product

In the last 10 years, developers have offered ALFs as an alternative to nursing home care. ALFs are not a replacement for nursing homes, although studies suggest that at least 15 percent of nursing home residents could be placed in lower levels of care. Moreover, according to an American Association of

Retired Persons survey, most older persons would rather remain in their own homes. Only 5 percent of frail elderly persons reside in institutional settings.

Nevertheless, ALFs are an important product in the growing seniors' housing industry. For the Department to be successful in this product, S/AO staff must educate itself about all aspects of the ALF market, appraisal considerations, underwriting and project operations. Moreover, as the early experience with B&Cs shows, vigilance is required in monitoring the implementation of ALFs as a distinct product line to avoid the problems that GAO has pointed out.

B. Underwriting

Recent Headquarters reviews of selected ALFs raised concerns about underwriting of these facilities, which, as a class, may expose FHA to higher risks if not properly underwritten. Of particular concern was the use of cap rates and expense ratios that were too low. For example, the cap rates used (most of them less than 10 percent) did not reflect the proper returns expected for the level of risk involved with this facility type. Likewise, ALFs entail a high degree of expenses relative to rental apartments which must be reflected in the underwriting.

S/AOs should review the Section 232 Handbook (4600.1 REV, dated September 1992 and 4600.1 REV, dated January 1995) in conjunction with this notice as well as reach out to State agencies and industry resources to garner greater understanding of this product. The Handbook, particularly the Valuation instructions, cover analysis of income and expenses, proprietary income, and other aspects of ALF underwriting. It is essential to get a thorough understanding of the product. While Headquarters can assist through written guidance and training, there is no substitute for learning about local conditions.

ALFs are primarily a private pay product. In some cases, the owner/operator may set aside some units to be used for low-income residents if bond financing requires it or the owner so designates. If so, the income stream must be adjusted downward to show the discounted rate for the set-aside of low income units. For underwriting purposes, the category of income must indicate the number of market units at the private pay rate and the number of units at less than the market rate.

C. Mortgagor Experience

Inexperience of the operator was the single most specified reason for default and claim for the 10 B&C claims cited in the GAO report. S/AOs must ensure that only experienced developers and operators participate in FHA's ALF program. Therefore, the developer or a member of the development team should have a proven track record of 3 to 5 years in the ALF or B&C market. This experience must be in developing, marketing, and operating ALFS. These facilities are different from those of other project types insured under Section 232. With the focus on hospitality coupled with health care, ALFs are very different from rental apartments and even from nursing homes, and management experience is more important than the real estate.

S/AOs should make it a condition that developers without the above experience must contract with a management company/operator that is knowledgeable about the industry and has a proven track record. (See Handbook 4600.1, REV-1, Change 1, paragraph 13-10.) Offices should also encourage sponsors to use a lender familiar with Section 232 processing.

D. Market

Marketing an ALF to the frail elderly population requires in-depth knowledge of 1) product, 2) location, 3) price, 4) accommodations, 5) business, 6) design ; and 7) community relations. The ALF market is private pay and consumer driven. Residents have options and exercise choices

regarding how they spend their money for the type of residential care facility they select, i.e., nursing home, ALF, home care or senior retirement facility. As an aid to assessing the market for ALFS, see Attachment 1, EMAS guidelines for market analyses.

Market Study

The market study must show that sufficient demand exists for the proposed project with the amenities and services offered, at the appropriate price, at the size, and at that location. Since every market has different characteristics, the market study should reflect: 1) types of competitors, 2) pricing, 3) age of facility, 4) referral sources, 5) track record of owner/operator (years of experience in the business), 6) name recognition- and 7) expertise of the development team.

S/AOs should research the market and validate the data (age, income, and frail elderly population). The HUD economist should conduct an independent market analysis of current and anticipated supply/demand including collecting data on the competitive environment. This should consist of current projects and those in the pipeline (planned or under construction) and information on the trends on wages, pricing structure, occupancy and demographics. Any market plan should deal with the primary market (5-mile radius). The secondary market may include up to a 15-mile radius for a study. The market study must provide a statement of market condition, penetration, and market position of the proposed developer.

A market study is no substitute for a financial feasibility study. Each should focus on: 1) demographics, 2) trends, 3) neighborhoods, 4) pricing, 5) economics; and 6) market area that the project will serve. The economist must validate the sponsor's market study by conducting an independent market study of the market place to assess the supply/demand (existing, pipeline, and planned beds/units). The independent study must have evidence to support market demand.

In addition to the formal market analysis, S/AOs must review the proposed business component. This product is much more a health care business enterprise that must be profitable for the project to remain viable rather than a housing facility that merely provides additional services and amenities. The real estate is not what makes the project financially successful. For those providers that market special care programs, (Alzheimer's, hospice), it is important to review the business plan, proposed activities, staff ratios, room rates, architectural designs, State and local inspection reports, and referral sources.

Feasibility Study

A feasibility study determines if the proposed project can be produced at and marketed at the prices reflected in the market study. The feasibility is an opinion or a report of the financial forecast and management's assumptions. If the project is an expansion to an existing facility, the mortgagor should provide an overview of the facility (including key management staff), services, occupancy, detailed list of sources and uses of funds, facility utilization, historical report on revenue and expenses,

working capital funding, debt service coverage, payor sources, contracts - VA, County, State, Health Maintenance Organizations, Managed Care Organizations.

If the project is a new facility, the mortgagor should include in the business plan: size, services provided, marketing area, name and experience of the design architect and general contractor, forecast of facility utilization, revenue and expenses and key management staff and their experience with developing/managing a comparable type of facility. The feasibility study must test the financial viability of the project to generate income based on stabilized occupancy and the prognosis of the market over the next 5 years.

E. Pre-Marketing

The developer should start the pre-marketing approximately 6 months before the project becomes operational. This approach should expedite the lease-up period. A pre-marketing budget (typically around $1,500 per bed/unit according to industry sources) allows the mortgagor to pay rent, hire marketing staff, and buy promotional services, consultants and supplies. It ensures that the mortgagor will focus on marketing from initial endorsement to project completion, operation, and stabilized occupancy. The pre-marketing is critical to the initial occupancy as well as the ongoing fill-up period. The premarketing expense is a soft cost that should be included in the mortgage. The marketing expense is as important as the location, reputation of the developer, and the project design.

The approach to pre-marketing is different for independent living units (ILU) than ALF units in cases where an ALF contains ILUs. The market study must show the additional time it may take to fill up ILUs (12-18 months.) The lead time to get an executed admission contract for an ILU is longer than for an ALF. The lead time to get an executed admission contract for an ILU unit (generally 12-18 months) is longer than for an ALF unit. However, the above is only meant as a guide, the real test is the track record of the developer.

S/AOs should look closely at the Initial Operating Deficit (IOD) escrow to offset a slow lease-up period. The IOD will be critical to the success of the project during the first 10-12 months. The IOD escrow must be funded to offset the slow fill-up period for new facilities.

F. Design

The proper mix of accommodations is an important factor in the success of the lease-up and occupancy. As discussed previously, some developers with nursing home experience may want to develop mostly semi-private rooms even though this type of unit has

not been successful in the ALF market. Because ALF residents generally are private pay and have a choice (unlike Medicaid recipients in nursing homes), private rooms with a full bath are the standard. There may be a few semi-private rooms in some facilities where market experience supports it. However, the rationale for the semi-private rooms will be based on the desire of the developer to have some units affordable for SSI and low-income residents or

for specialized markets. Alzheimer's facilities may be developed as free-standing facilities; however, the trend is to build smaller facilities comprising 16-44 beds.

While there is no typical ALF model, some developers have been successful with a prototype model used in multiple locations. HFAs may choose to develop ALFs with an affordable housing component by reducing the construction cost and partnering with local communities. If so, these facilities have less space, fewer services, and different design features.

Also, developers that initially built retirement communities with ILUs may have to retrofit those units and convert them to ALFs due to "aging in place." In order to qualify for Section 232 mortgage insurance; however, the units must be constructed to meet Federal, State, local building and fire codes, and Federal and State accessibility requirements.

The design of the ALF should be a residential vs. institutional model and give the appearance of a home-like environment. The building should be designed to maximize the needs and preferences of the residents that occupy the units. A minimum of 25 square feet (sf) of dining area and 30 sf of recreational and common space are recommended minimum standards. The unit size may vary from 150 sf (semi-private room) to 650 sf for a two-bedroom unit. The size will be subject to pricing, what the market will support, and the cost of construction.

The design of the facility must closely match the needs of the regulatory environment, providers who will operate the facilities and the residents who will occupy the units. HUD should encourage creativity in design while still adhering to enforcement codes, zoning, licensing, and local ordinances. The developer should design an ALF to meet residents' needs and at the same time keep in mind that the product is market driven and the consumer has choices.

G. Averages

There are some overall industry statistics and "rules of thumb" that S/AOs should be familiar with when processing ALFS. In learning about the industry in a particular area of the country, staff will undoubtedly need to fine tune these items in view of local conditions. The following are not meant to be hard and fast rules or limits where local experience suggests otherwise. Examples to consider are:

1. According to an April 1996 survey of 120 projects by Capital Valuation Group, the average freestanding ALF project costs $6.4 million and generates $2.3 million in annual revenues.

2. The care in an ALF is delivered at approximately 70 percent of the cost of care in a nursing home.

3. The average operating expenses are approximately 55 percent of the cost of care.

4. The resident turnover is approximately 40 percent per year.

5. The income estimate (for qualification purposes) should take into account that the resident will spend

approximately 75 percent of income on the monthly ALF costs.

6. The resident will need an income of approximately $25,000 per year to reside in an ALF.

7. The average admission per month after the initial fill-up is three to four residents per month.

8. The typical fill up takes 10-12 months for experienced operators. The overall industry absorption rate is three net admissions per month.

9. The average construction cost is $85 per square foot.

10. The profit margin is 35-40 percent before debt service coverage.

H. Major Concerns

The emergence of ALFs could have a negative impact on HUD's nursing home portfolio in those States that have a Medicaid waiver to use monies previously targeted for nursing facilities, as families and States seek alternatives to higher priced skilled facilities. However, many nursing homes may be able to reposition their markets toward higher levels of care, such as sub-acute care, in the face of changes to Medicare and Medicaid reimbursements to offset a potential negative impact. The emergence of ALFs could also generate a great deal of business for FHA from smaller facilities requiring substantial rehabilitation and refinance. The S/AO must pay close attention to the track record of the project owner/developer for all existing facilities, whether or not they require rehabilitation, refinance or acquisition. The past 3 years of financial data will be critical in determining the project's feasibility. The historical profit margin will be an important factor in determining financial feasibility. The major concern and caution is that inexperienced operators will attempt to build retirement housing for seniors financed with Section 232 insurance.

As the industry matures and lenders learn about the Section 232/223(f) product, there will be inquiries about refinancing retirement centers, congregate housing, and independent living units. The above projects would only qualify if they meet the State licensure requirements and program eligibility and underwriting requirements under Section 232.

J. Coding (2088)

There is a separate Section of the Act Code assigned to ALFs and B&Cs in the F47 MIAS System. The code the S/AO should use for ALFs is RNL and RNT for B&Cs when transmitting the 290s to MIAS. Using the above codes will allow the Department to track the growth of these products. These suffixes have not yet been implemented in MIDLIS.

V. OTHER ISSUES

In addition to the GAO Report, two recent Inspector General Audit Reports have raised issues about nursing home and ALF developments which we would like to bring your attention.

A November 13, 1995, Office of Inspector General Report, "Section 232 Nursing Homes, The Americana and Monticello Hall, Office of Housing, (96-SE-119-0001)" prepared by the Office of Audit, Northwest/Alaska, presented findings on the cases of Pleasant Valley Health Services Corporation, a California based nonprofit mortgagor. Issues raised by the bankruptcy of two of its projects under Section 232 led to a review of the sole-asset mortgagor requirement and the proper filing of UCC documents.

In the Seattle case, Headquarters granted a waiver of the sole asset requirement because the sponsor had a firm commitment and was about to close when the sole asset requirement was established for nonprofit entities. However, the nonprofit ultimately went into bankruptcy, the two insured projects defaulted, and HUD's interests were unprotected in a series of areas including UCC filings and bed authority that was not tied to the project.

A separate review by the District Inspector for Audit in the New England District raised concerns about lease payments during the construction period and obtaining operating statements from the Mortgagor/Lessor as well as recommended revisions to several processing forms and the regulatory agreement.

A. Waiver of Sole Asset Mortgagor Requirement

Waiver authority of the sole asset mortgagor has been delegated to the field as part of the overall delegation of waiver authority for handbooks, notices, and similar instructions. However, experience has indicated that S/AOs must exercise extreme restraint in granting this waiver. S/AOs must ascertain, on a case-by-case basis, that FHA's financial interests are protected. Any such waiver should be made only where there is a compelling reason and not mere convenience. S/AOs should consider what compensating collateral is adequate to protect the insurance fund. The Department's security for nonrecourse loans must not be diminished.

B. Uniform Commercial Code Documents

UCC documents must be filed in each State where the project is located and where the project owner is located if they are in different States. The UCC filing statements must specifically cover nursing home revenue as project revenue. The closing checklist of legal requirements (see Appendix 1 of HUD Handbook 4430.1 , REV-1) continues to list the UCC or chattel mortgage documents as exhibits.

In addition, the new revised guide form for the mortgagor's attorney's opinion addresses the responsibility for proper filing of the UCC financing statements.

C. Project Bed Authority

Any modifications (additions, deletions or major improvements) in the bed authority for a nursing home insured under Section 232 must be approved by HUD to protect FHA's security in the project. This must be reflected in the Regulatory Agreement. Moreover, security interest in the bed authority should be perfected to the project to the extent possible under State law.

D. Leased Facilities

S/AOs must review lease agreements between the mortgagor and lessee to ensure that the agreement reflects a market comparable lease payment. Offices should take exception when the agreement, especially for cases involving substantial rehabilitation of an existing nursing home, provides for a reduced (less than market) lease payment for the period up to cost certification cut-off in an attempt to avoid the application of net income as a recovery of construction costs, For all projects involving an identity-of-interest lease, at cost certification, the mortgagor and lessee are required to submit a certified operating statement which reflects the income collected and expenses incurred in accordance with the lease agreement. Mortgagees must be advised that failure to disclose a lease arrangement or identity of interest will be considered a serious violation and will be grounds for Departmental sanction.

E. Lease Payment/Net Income During Construction Period

Total income, including lease payments, must be recognized during the construction/rehabilitation period. When an identity-of-interest lease situation exists, all project income during the construction, irrespective of the lease amount paid by the identity of interest lessee, will be considered and mortgage reductions applied accordingly. There should be no difference in the overall basic income figures whether or not there is an identity of interest lessee.

At the time of cost certification, an audited operating statement in accordance with the requirements set forth in paragraph 11-6.B.3 of Handbook 4470.1 REV-2 . covering the period from the beginning of marketing and rent-up activities (or date of initial endorsement in rehabilitation projects involving insurance of

advances or start of construction for rehabilitation projects involving insurance upon completion) to the cost certification cut-off date, must be submitted by:

1. The mortgagor entity, in all cases.

2. Lease Arrangements

   a. The lessee, when an identity-of-interest exists between the mortgagor and lessee and the lessee has executed the Regulatory Agreement-Nursing Home, Form HUD-92466 NHL). While a review of both the mortgagor's and lessee's statements is required in determining the actual amount of net income available to off-set allowed costs, primary emphasis is given to the lessee's statement. Review the statements in accordance with the instructions in Chapter 11 of Handbook 4470.1 REV-2. In addition, when reviewing the lessee's statement:

      1) increase net income by the amount of the lease payment paid to the mortgagor (lease expense).

      2) increase net income by any income, other than lease income, reported on the mortgagor's income statement.

3) decrease net income to include typical project operating expenses from the mortgagor's statement which the mortgagor is required to pay per the lease agreement, i.e., real estate taxes, insurance, etc. Make sure there is no duplication of expenses.

b. The mortgagor entity only, where no identity-of-interest exists between the mortgagor and lessee and the lessee has executed the Regulatory Agreement-Nursing Home, Form HUD-92466 NHL. The mortgagor's income statement should reflect a market comparable lease payment as income.

3. The mortgagor, where the mortgagor and the administrator are the same entity and Form HUD-92466 NHL has not been executed.

Treat any net income resulting from review of the operating statement in accordance with the instructions contained in paragraph 11-6.B.3.k of Handbook 4470.1 REV-2.

F. Regulatory Agreement for Leased Facilities

Current instructions require an executed lease between the lessor and lessee in those projects that are operating facilities at the time they obtain FHA insurance. S/AOs are required to approve a signed copy of the lease (Form HUD-92466 NHL). This requirement can be found in Handbook 4600.1, REV-1, Change 1, Chapter 14, paragraph 14-12 and 13. The lessee (tenant) only has the right to use the building equipment that is stipulated in the lease. In addition to executing a regulatory agreement, the lessee must sign a Previous Participations Certification (Form HUD-2530). The term of the lease does not have to parallel the same term of the mortgage.

G. Forms Revision

The following forms are being revised to more accurately reflect the requirements of the program. S/AOs should make the following changes until the forms are revised:

1. Form FHA-2433 Mortgagor's Certificate

Include language that clearly states that the mortgagor/lessor must report lease payments during the construction period as rental income.

2. Form FHA-3305 Agreement and Certification

Include language that clarifies that not only must the mortgagor report all receipts and disbursements from the date of first occupancy, but also that all receipts and disbursements must be reported during the rehabilitation period for substantial rehabilitation cases.

3. Form HUD-92466 NHL Regulatory Agreement

Include a provision that any and all future lessees must execute a Regulatory Agreement. There must also be language to require the lessee to submit financial

statements to the S/AO or designee within 60 days of the close of the project's fiscal year.

4. Regulatory Agreements

We will develop a separate Regulatory Agreement for the Section 232 program in the near future. The Agreement will be tailored to residential health care facilities and clarify such areas as distinguishing between "rents" and "accounts" or "fees and charges."

In at least one jurisdiction, a bankruptcy court has ruled that monies paid for nursing home care are no more "rents" than are hospital charges. The court said that the fact that patients live there is incidental to providing them with nursing care.

VI. UNDERWRITING CONCERNS RELATING TO CREDIT SUBSIDY

A. Implications of Actuarial Analysis for FHA's Section 232 program

Price Waterhouse recently completed an analysis of the Section 232 program for credit subsidy re-scoring purposes. The program, overall, appears to be in relatively sound shape from a strict "credit subsidy" perspective. That is, standing alone and analyzed in isolation, an assuming no radical and unanticipated health reform revisions are forthcoming, the program is self-sufficient. However, the study uncovered a pattern which FHA must correct in order to protect the Insurance Fund and improve program performance.

B. The Pattern: Causes and Cures

A critical fact revealed by reanalysis of the 35 years of program data is that most claims occur within the first 7 years (see Attachment 2.) Years one through four are particularly disastrous, accounting for nearly two-thirds of all claims. This new construction/substantial rehabilitation underwriting problem must be addressed, because it has an enormous effect on credit subsidy results (which are most strongly influenced by early program cash flows since less "discounting" back to present value is required for years one through four losses, when measured against MIP income).

One may attribute some of these losses to early state-Medicaid or Medicare reimbursement errors and implementation delays in the late 1960's and early 1970's, or unintended State budget-driven underfunding or cost cutting measures in the late 1980's and early 1990's. However, this admonition to examine the underwriting problems carries even greater weight when one understands that approximately one-third of assigned nursing

facilities "righted themselves" while being HUD-held and, upon disposition, repaid all accrued interest, unpaid principal balance, and other holding and disposition costs. This suggests that even thinly-capitalized businesses could eventually succeed if operating deficits had been more accurately forecasted. The lesson learned is that HUD must evaluate the adequacy of the operating deficit reserves carefully. During the fill-up period, the payroll (relatively large front-end requirements) and marketing costs are the primary contributors to project defaults and

FHA's losses. S/AOs must assure that adequate operating reserves are established to address the above concerns.

Any questions on this Notice should be addressed to Courtland Wilson, New Products Division at (202) 708-0743, extension 2542.

Nicolas P. Retsinas
Assistant Secretary for Housing-
Federal Housing Commissioner

Attachments

Attachment 1

GUIDELINES FOR CONTENT AND FORMAT OF A MARKET ANALYSIS REVIEW
SECTION 232 RESIDENTIAL CARE FACILITIES

A. Project Description:

1. Number of units by bedroom size or type of accommodation.

2. The estimated total month cost for shelter and mandatory services by size of unit or type of occupancy, or accommodation.

3. The estimated total month cost for optional services or care provided on an as needed basis.

4. The proportions of the project to be occupied by public pay/assisted tenants, e.g., SSI, and that by private pay/market rate tenants.

5. The amenities, services and care provided by this type of housing and how these relate to the physical or mental, social conditions of the prospective tenants.

6. Project location in terms of proximity to facilities and services essential to the tenants such as hospitals, medical/health care facilities, social and community services, public transportation, shopping and recreational activities; and an any other location considerations relevant to the market or marketability of the proposed project.

B. Summary of Findings and Recommendation:

Statement of recommendation of approval or disapproval and brief summary of findings supporting the recommendation.

C. Definition of the Market and Submarket Area:

Description of the geographic boundaries of the housing market area and an explanation for the definition, including a discussion of the primary and secondary geographic market areas and the qualitative submarkets for the project by socioeconomic characteristics: income, household size, age of head, etc.

D. Current Inventory: Quantitative and Qualitative Characteristics of Projects in the Market Area.

1. Total number of units or accommodations by type or bedroom size, e.g., one-bedroom apartments, independent living units, private, semiprivate rooms, wards, etc.

2. Total monthly charges by bedroom size or type of accommodations

E. Alternative Health/Medical Care and Social Service System

1. Description of the extent and types of alternative housing, care and services in the market,

a. Home health care, adult day care, housekeeping services, meal preparation, visiting nurses, on-call transportation services health care, and alternative providers of supportive services for the target market such as state and local government social service agencies or fraternal, social, charitable or religious organizations.

b. The impact of these alternatives on demand for the subject project.

2. Discussion of the current levels of public payments by the State for the types of care proposed relative to the typical "private pay" rate for the same level of shelter, care and services.

F. Characteristics of Pipeline Activity:

1. Total number of units under construction by the total monthly costs by bedroom size or type of accommodation, and the services or amenities planned (mandatory or fee for service).

2. Total number of units in the planning stages with permits or firm financial commitments. It is essential to have the most up-to-date and comprehensive information possible on the pipeline so that disagreements of supply volume with lenders and sponsors may be accurately discussed and resolved.

G. Demand Estimate and Analysis

1. The market analysis is based on an estimate of annual demand for the type of residential care. The demand estimate should show the number of units or accommodations by type and the total monthly charges.

2. An analysis which reconciles the proposed project with the demand estimate, taking into consideration the forecast household and population growth of the target group(s), the current vacancy situation, and the supply in the pipeline.

3. The demand estimate should reflect "effective demand" and should be based on the numbers of households with sufficient incomes and need for the type of shelter and care that could reasonably be expected to be captured by the market during the forecast period.

3. Typical types of services and amenities offered, whether these are mandatory or optional fee for services, and whether services are provided by the facility (directly or by contract) or through a third-party arrangement (tenant and care provider).

4. A discussion of the types of projects and other housing options comparable to and competitive with the subject project; both in terms of the type of ownership/financing and tenant admission, e.g., private or public financed, extent of private pay or public pay (medicare, medicaid and SSI patients).

5. Condition of inventory with consideration of the proportion that may be substandard or obsolete in terms of physical plant, services, amenities, etc. This is particularly important when the

proposal involves skilled nursing care or project with a combination of levels of care revolving around a "medical model".

6. Characteristics of the current tenants in terms of socio-economic and psycho-physiological conditions e.g., age, income, sex, and limitations in activities of daily living, cognitive impairments, disabilities, etc.

7. Absorption experience of recently completed projects on a units per month basis, discussing the level and extent of any pre-sale or pre-marketing efforts.

8. Extent of turnover and size of waiting lists in existing projects.

9. Current occupancy in comparable and competitive projects and in the market area for the type(s) of product, including a discussion of reasons for any vacancy or absorption problems in the market.

10. Current total monthly charges for comparable and competitive product, with consideration of typical amenities and service package.

11. Extent of concessions or similar incentives in existing projects or projects in initial rent-up.

4. A descriptive analysis of the demand estimate which addresses the primary determinants including:

a. Current and projected population of the target group(s) by age cohort and the proportion of the market each group comprises.

b. Current and projected estimates of the primary group to be served by social, physiological, psychological characteristics, i.e., the extent and type of limitations in activities of daily living or cognitive impairment/disability.

c. Current income level/band of income of prospective households comprising demand, including cost/rent to income ratio(s) assumed in the analysis.

ATTACHMENT 2

ATTACHMENT 2 CONTAINS HISTORICAL CLAIM EXPERIENCE - SECTION 232 - FISCAL YEARS 1960 THROUGH 1995.